

**AUDIT, FINANCE & BUDGET COMMITTEE MINUTES**  
**BUFFALO FISCAL STABILITY AUTHORITY**  
**Wednesday, September 30, 2009**

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The following are minutes from the Buffalo Fiscal Stability Authority's Audit, Finance and Budget Committee meeting held on Wednesday, September 30, 2009, at the Buffalo & Erie County Central Public Library.

**Committee Members Present:** Kolkmeier & Mertz

**Committee Members Absent:** Giardino

**Additional Attendees:** Arthur & Townsend

**Staff Present:** Kelly, Link, Miller, Mobley & Mongold

The Buffalo Fiscal Stability Authority's ("BFSA's") Audit, Finance and Budget Committee meeting was called to order at 12:35 PM by Director Mertz who acted as Committee Chair in Director Giardino's absence. He called a roll of the members. Finding a quorum present, the meeting commenced.

**Opening Remarks**

Director Mertz summarized the meeting's agenda which included the following:

- A review of the results of the 2009 independent audit of the BFSA;
- A review of the 2009 BFSA Annual Report;
- A motion to send both items to the full Board with the recommendation for approval.

**Approval of June 10, 2009, Meeting Minutes**

Director Mertz introduced Committee Resolution 09-05, "Approving Committee Minutes from June 10, 2009," and asked for a motion for approval.

Motion by Kolkmeier, second by Mertz. Approval 2-0.

**RESOLUTION NO. 09-05**

**APPROVING COMMITTEE MINUTES FROM JUNE 10, 2009**

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BE IT RESOLVED that the Audit, Finance & Budget Committee of the Buffalo Fiscal Stability Authority approves the minutes of its meeting of June 10, 2009, and ratifies and affirms resolution 09-04 which was approved June 10, 2009.

This Resolution shall take effect immediately.

***Presentation of BFSA Fiscal Year 2009 Independent Audit by Lumsden & McCormick, LLP***

Director Mertz noted the attendance of Ms. Donna Gonser, audit partner from Lumsden & McCormick. He asked Ms. Gonser to present the findings of the 2009 BFSA audit.

Ms. Gonser acknowledged the professionalism and cooperation of Executive Director Mongold and her staff and thanked them for their efforts and for making the audit process a priority.

Utilizing a slideshow presentation, she provided the following information.

## Communication with Those Charged With Governance as Per Generally Accepted Auditing Standards And Government Auditing Standards

- It is the auditor’s responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards to, “provide reasonable, but not absolute assurance, that the financial statements are free from material misstatement, and that they are fairly presented, in all material respects, in accordance with accounting principles generally accepted with the United States of America.”

## Planned Scope & Timing

- Partner Rotation: The audit team was able to meet with former BFSA Executive Director Bertha H. Mitchell and Mr. John Schivone, Lumsden & McCormick partner who had conducted BFSA’s prior years’ audits. Additionally, Ms. Crystal Kopacz of Lumsden & McCormick contributed toward the auditing work, as done in years past.
- A risk-based audit approach was utilized. Risk areas were identified prior to the audit and addressed accordingly. Revenue as well as bonds receivable/ bonds payable were identified as risk areas due to their significance on the balance sheet.

## Significant Accounting Practices

- Accounting estimates were used primarily as recognition of revenue relating to sales tax at fiscal year-end.
- Footnote disclosures were included, primarily Note #4, “Due from Other Governments”, which represents State Aid and Sales Tax accrued at year-end. Other significant footnotes were long-term liabilities, which represents bonds payable, and the accrual of OPEB liabilities due to the requirements of GASB 45. Additional footnotes addressed wage-freeze litigation and contingencies.
- Note: There were no disagreements with management. BFSA staff understood the importance of the audit and was very amiable.
- Five reports were issued, as follows:
  1. Independent Auditor’s Opinion on Financial Statements - An unqualified or “clean” opinion stating that the financial statements are reasonably stated in accordance with generally accepted accounting principles.
  2. A report on internal controls stating that BFSA is in compliance with government auditing standards.
  3. A report on investment guidelines stating that BFSA is in compliance with public authorities’ requirements.
  4. A “No Material Weaknesses” letter stating that no significant weaknesses or material weaknesses in internal controls were identified.

## Summarized Financial Highlights

- The Condensed Statement of Net Assets: BFSA is essentially a “pass through” entity. On June 30, 2009, BFSA held \$38 million, substantially all of which was restricted for specific uses.

Condensed Statement of Net Assets			
June 30, 2009			
<b>Assets</b>			
Cash, cash equivalents, investments	\$ 38,175,000	\$ 29,528,000	\$ 55,081,000
Notes receivable - City of Buffalo	108,378,000	117,682,000	127,161,000
Due from other governments	32,905,000	33,767,000	33,591,000
Other	2,110,000	2,359,000	2,620,000
<b>Total assets</b>	<b>181,568,000</b>	<b>183,336,000</b>	<b>218,453,000</b>
<b>Liabilities</b>			
Due to City of Buffalo	28,902,000	29,739,000	29,680,000
Bonds payable (BAN in 2007)	140,094,000	151,817,000	189,768,000
Other	2,410,000	2,489,000	3,372,000
<b>Total liabilities</b>	<b>171,406,000</b>	<b>184,044,000</b>	<b>222,820,000</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	4,000	13,000	28,000
Restricted	37,781,000	29,358,000	23,520,000
Unrestricted	(27,623,000)	(30,079,000)	(27,915,000)
<b>Net assets</b>	<b>\$ 10,162,000</b>	<b>\$ (708,000)</b>	<b>\$ (4,367,000)</b>

## Condensed Statement of Activities

- Total general revenues increased by roughly \$22 million, mostly attributable to the large increase in State Aid.
- Conversely, sales tax revenue declined, correlated with the recent economic decline.
- Expenses increased by almost \$10 million, attributed to distributions to the City of Buffalo.

### BUFFALO FISCAL STABILITY AUTHORITY

#### Condensed Statement of Activities

For the years ended June 30,	2009	2008	2007
<b>General revenues</b>			
Sales tax	\$ 106,138,000	\$ 110,116,000	\$ 105,654,000
State aid	181,751,000	160,071,000	155,667,000
Interest income	5,785,000	6,665,000	6,032,000
<b>Total general revenues</b>	<b>293,674,000</b>	<b>276,852,000</b>	<b>267,353,000</b>
<b>Expenses</b>			
Distributions to City of Buffalo	243,784,000	231,066,000	209,695,000
Distributions to City of Buffalo School District	32,145,000	34,435,000	33,218,000
General and administrative	1,069,000	1,272,000	1,454,000
Interest expense	5,806,000	6,420,000	7,281,000
<b>Total expenses</b>	<b>282,804,000</b>	<b>273,193,000</b>	<b>251,648,000</b>
<b>Change in net assets</b>	<b>\$ 10,870,000</b>	<b>\$ 3,659,000</b>	<b>\$ 15,705,000</b>

## General & Administrative Summary

- Expenditures declined by more than 20%. This was mostly attributable to a reduction in staff expenses.

### BUFFALO FISCAL STABILITY AUTHORITY

#### General & Admin. Summary

For the years ended June 30,	2009	2008	2007
Staff expenses	\$ 366,800	\$ 433,900	\$ 448,800
Employee benefits	105,800	140,200	146,600
Central services	57,000	58,400	61,300
Legal and other admin	181,700	266,800	324,800
Board functions	20,400	20,200	14,600
Grants	-	-	46,700
	<b>\$ 731,700</b>	<b>\$ 919,500</b>	<b>\$ 1,042,800</b>

Chair Kolkmeier asked Ms. Gonser to explain the differential between the 2009 General & Administration Summary total of \$731,700 and the \$1,069,000 2009 General and Administration total listed on the, "Condensed Statement of Activities." Ms. Gonser replied that she would research it and provide an explanation following the meeting.

Executive Director Jeanette Mongold interjected that the \$1,069,000 total represents the "full accrual" method of accounting which includes other items, such as OPEB expenditures, whereas the \$731,700 includes only General Fund expenditures.

Director Mertz asked for an explanation on item #8, “Post-Employment Healthcare Benefits” of the Notes to Basic Financial Statements. He noted the healthcare inflationary assumption of, “9.5% reduced to an ultimate rate of 5.0% after nine years...” Additionally, there is “a discount rate of 5%.” He asked how these assumptions were determined. Ms. Gonser replied that management works with the actuaries to determine these assumptions and a level of reasonableness.

He also asked who the actuary was used to help determine these assumptions. Ms. Mongold replied that Milliman, Inc. assisted with this formulation.

Director Mertz asked for a motion to accept the 2009 Independent Audit and all of its findings and to send the material to the full Board with the recommendation for approval.

Motion to approve by Kolkmeier, second by Mertz. Approval 2-0 to send the 2009 Audit to the full Board with a recommendation for approval.

### ***BFSA Annual Report***

Director Mertz stated that the final item for consideration is a “review of the Annual Report and the recommendation to approve the report in substantially its final form, as well as to delegate authority to the BFSA Chair and the Executive Director to make any necessary changes that may be required for its accurate completion. The BFSA is required to file an annual report along with its year-end audit, along with several other documents. The Annual Report details BFSA activities during the fiscal year and has been prepared following the format required by the [New York State] Office of the State Comptroller.”

He added, “the report consists of two main sections: the first is a summary of accomplishments during 2009 and the second is a review of the City’s and the Covered Organization’s budgets and four-year financial plans. The summary of accomplishments is a compilation of actions taken by the Board during the 2009 year. The section on the four-year financial plans is a compilation of the reports you received with the June 10<sup>th</sup> board books. The report is required to be filed with the Office of the State Comptroller on October 1<sup>st</sup>. This report will be available on the BFSA’s website, along with past Annual Reports.”

He requested a motion to accept the Annual Report, as presented, and to delegate authority to the BFSA Chair and Executive Director to make any necessary changes as required for an accurate completion.

Motion to approve by Kolkmeier, second by Mertz. Approval 2-0 to send the 2009 BFSA Annual Report to the full Board with a recommendation for approval.

### **Adjournment**

Mr. Mertz entertained a motion to adjourn which was carried unanimously. The meeting adjourned at 12:59 PM.